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POSTAL SERVICE CANCELS SOME ELECTRONIC AND FINANCIAL SERVICES PRODUCTS; SHOULD CANCEL MORE

Executive Summary

The U.S. Postal Service recently announced that it will soon discontinue USPS eBillPay, an on-line bill payment service, and two related ventures. Like several other products the government-owned Postal Service has rolled out and then terminated in the last several years, these services have virtually no connection with the agency's core mission, which is the hard-copy delivery of non-urgent letters and periodicals.

While the Postal Service is right to pull the plug on these money-losing ventures, it never should have offered them in the first place. The government agency's non-core operations serve no worthwhile public policy purpose. They often yield poor financial results, which weakens the agency, burdens ratepayers within the postal monopoly, and threatens taxpayers. They also tend to be inefficient and are unfair to the private-sector businesses against which the government agency competes. The Postal Service should stick to its central mission. The agency's difficulties in fulfilling its core tasks are no excuse for forays into markets already served by private-sector businesses.

To enhance transparency and accountability, it would be good public policy for Congress to enact legislation requiring that the Postal Service publicly disclose, on a regular basis, the revenues and costs of each of its products in non-core markets. The Postal Service's regulator should have statutory power to ensure the Service obeys the requirement. An even better reform would be requiring, by statute, that the Postal Service devote all its energies to its central mission and discontinue new forays into competitive markets.

POSTAL SERVICE CANCELS SOME ELECTRONIC AND FINANCIAL SERVICES PRODUCTS; SHOULD CANCEL MORE

The U.S. Postal Service, which is part of the federal government, recently announced that it will soon terminate USPS eBillPay, an electronic bill paying service it offers in conjunction with the CheckFree Corporation.[1] It will simultaneously discontinue two related products: USPS Send Money, a service for transferring money between bank accounts, and USPS Pay@Delivery, a service for paying for merchandise online at the time delivery is confirmed. Several months ago, the government-owned agency canceled another electronic offering, Mailing Online, which allowed customers to send in documents electronically for conversion into hard copy and final delivery by mail carriers.

Over the years, the government enterprise has discontinued a number of other nontraditional products. For example, in 2002, it ended Post Electronic Courier Service (PostECS), a system for the secure global delivery of electronic documents over the Internet. In 1999, after steep losses, it pulled out of Remitco, a service for processing bill payments mailed to businesses. In 1997, after several million dollars in development costs but before rollout, it canceled Deliver America, which would have let customers catalog shop from Postal Service kiosks, with the product lineup initially emphasizing postal wares but envisioned as later expanding to include sportswear, business supplies, and housewares.[2]

Many of the discontinued products were part of the Postal Service's ill-fated campaign to develop and sell an array of e-commerce products. The Postal Service ploughed millions of dollars into this area, most now lost, despite warnings from critics that e-commerce was unlikely to yield the easy money the agency expected and that a government agency should not be launching e-commerce businesses in any case. David Fineman, chairman of the Postal Service's Board of Governors, recently told Congress that as of early 2001, the agency's "e-commerce spending was $33 million annually, producing gross revenue of only about $2 million." Chairman Fineman also testified that, under prodding from the Board of Governors, the Postal Service's management has reevaluated these activities, with the result that "all but one of our e-commerce ventures were discontinued or realigned." He said "the lesson" is that the Service needs to "remain focused on our core business" and cannot afford "the luxury of taking our eye off the ball".[3]

The Postal Rate Commission (PRC), which is the separate federal agency that regulates the Postal Service's rates, and the PRC's Office of the Consumer Advocate may have hastened the reevaluation by asking tough questions about many of the discontinued products, as well as a number of other products the Service continues to offer. The PRC's Office of the Consumer Advocate wanted to know how much the products cost, what were their revenues, why was that information not readily available, and why has the Postal Service often introduced new products in recent years without filing cases with the PRC.

Postal Service recognizes that some products fail but does not see larger picture.

Although the Postal Service should never have become involved with products like Remitco and an on-line bill payment service, it deserves credit for admitting eventually that they were mistakes and pulling the plug on them.

Unfortunately, it is not clear whether the government agency has truly learned its lesson or whether it views the discontinued products as temporary setbacks in a continuing effort to push beyond its core market. For example, the agency scaled back its e-commerce offerings, but still offers several products in that area.

Why should a government enterprise whose core mission is the hard-copy delivery of non-urgent letters and periodicals be selling ***any*** e-commerce products? More broadly, why should it be offering ***any*** commercial products except those central to its mission?

Congress indicated with the private-express statutes[4], which grant the Postal Service a monopoly on non-urgent letter delivery, and the mailbox monopoly[5], which gives the agency exclusive access to home and business mailboxes, that the Postal Service's core mission is the hard-copy delivery of non-urgent letters and periodicals.[6] The agency's core products, that is, the products Congress sought to place in the Postal Service's hands by largely sheltering them from direct competition, are first-class mail, standard mail, and periodical mail. (Although direct competition in the market for non-urgent hard-copy letter delivery is barred, private-sector companies can compete indirectly, with products such as newspaper advertisements and electronic communications. Also, private-sector companies can deliver periodicals as long as they do not place them in mailboxes, but that prohibition has proven a major barrier to rival periodical-delivery services except in the case of local newspapers.)

The Postal Service creates a lose-lose situation when it operates outside its core market. It hurts itself because its activities in competitive markets often lose money, which weakens the organization financially. Losses on non-core products are a threat to customers within the monopoly, especially first-class mail users, who may have to pay higher postage rates to offset the red ink. The losses are also a danger to taxpayers, who may have to bail out the government-owned Postal Service if the losses become big enough.

The Postal Service's non-core products further injure the organization, as well as its core customers, because they distract the Service's workers and management from giving as much time and thought as they should to controlling costs and maintaining service levels for the agency's core products. It is those core products that matter most to the general public.

Moreover, because the Postal Service is part of the federal government and receives a multitude of hidden subsidies from various levels of government (a rich assortment of tax exemptions, a low-cost credit line at the U.S. Treasury, exemptions from state motor vehicle licensing and registration fees, governmental status when facing tort claims, power of eminent domain, exemption from local zoning requirements, etc.), its presence in competitive markets is unfair to the private-sector businesses against which it competes; those private-sector businesses pay normal taxes, borrow at market interest rates, do not enjoy government protection against bankruptcy, and lack the Service's various other governmental powers and privileges. Beyond all these problems, the Postal Service's competitive-market forays weaken the U.S. economy's overall productivity because government enterprises are characteristically less efficient producers than private-sector businesses.

Given these reasons why the Postal Service should stick to its mission, it has courted unnecessary controversy by seeking to become a major presence in areas beyond its core market, such as e-commerce, the sale of retail merchandise in post offices, logistics, warehousing, retail financial services like on-line bill payment and electronic money transfers, and backroom financial services like Remitco.

Nevertheless, many recent statements from the agency have aggressively defended expansion. In a filing with the Postal Rate Commission in March 2003, the Postal Service, disregarding experience, portrayed its non-core activities as profit centers that provide extra income to help support its core mission, and asserted that the agency has a right and obligation to operate outside its core market — and perhaps redefine its core market — as it sees fit.

> "To fulfill its universal service mandate and mission, the Postal Service must find ways to use existing resources to generate

new revenue... [T]he Postal Service has striven to offer innovative postal services, ***as well as engaging in other activities that complement these services, serve the needs of customers, and otherwise maximize the value of the Postal Service's assets in a businesslike fashion***." [Emphasis added.][7]

Later in the same filing the government-owned Postal Service, with its huge government-granted monopoly market and government protection against bankruptcy, again tried to present itself as an ordinary business.

"Like any venture that depends on creating value and attracting revenue, the Postal Service needs the room to try new things, spread risk, stimulate innovation, and have flexible access to marketplace skills through partnerships. As with any new business initiative, it is reasonable to expect that some offerings will meet planned objectives while others will not."[8]

While a normal business should indeed be able to enter and exit markets as it thinks appropriate, the fundamental point the Postal Service's management brushes aside is that it is not an ordinary business but an arm of the federal government with a core mission. Further, the casual statement that losses will sometimes occur glosses over the fact that while private-sector investors bear most financial risks at normal businesses, the Postal Service shifts most of its financial risks to customers within the postal monopoly and to taxpayers.

In April 2003, Deputy Postmaster General John Nolan wrote to a member of the bipartisan President's Commission on the U.S. Postal Service that restrictions "should not exist" on Postal Service business operations in markets "where the private sector either already offers products and services, or could offer them..."[9] According to Deputy Postmaster General Nolan, some "appropriate areas" for Postal Service activities would be moving up the supply chain; moving down the supply chain; "logistics and fulfillment services; internationally originating mail; mail-related retail services; and convenience items at retail."

Postmaster General Potter very recently delivered a similar message to Congress.

"We are facing an uncertain future... We strongly believe that it is necessary for the Postal Service to maintain the flexibility to pursue appropriate revenue streams to protect our ability to provide universal service. Our intention is that any such activity would be in areas related to our core business."[10]

Mr. Potter's testimony, which immediately followed the testimony of Mr. Fineman that was cited earlier, indicates that while the Postal Service's managers now realize that many of the agency's e-commerce products were mistakes, they continue to imagine they can do better on other forays in non-core markets, and they continue to ignore the efficiency and equity issues that arise when a government entity seeks to compete against private-sector businesses.[11]

With regard to the Postmaster General's testimony, it is certainly true that the Postal Service confronts financial challenges. However, Mr. Potter incorrectly assumes that the beleaguered agency could readily pluck profits from fiercely competitive markets outside the postal monopoly. The Postal Service's many failures teach otherwise. Further, the Postmaster General's statement that new ventures will be related to the core business provides little real assurance because the agency has in the past claimed to see relationships between its core business and activities most people would regard as unrelated, such as electronic bill payment, money transfers, the sale of retail merchandise in post office lobbies, the processing of checks for companies, telephone service (via phone cards), photo services, and the on-line ordering of greeting cards and magazine subscriptions.

Recommendations.

Because of the Postal Service's continuing efforts to stray from its central mission, it would be good public policy for Congress to pass legislation that reminds the agency of what it should be doing.

• As long as the Postal Service remains in non-core markets, it should be required to release cost and revenue numbers on each of its non-core products on a quarterly basis, in order to increase transparency and accountability. (The Postal Service already prepares some quarterly numbers internally but keeps them under wraps.[12]) To be sure, the Postal Service will object that this information is proprietary, and that would be a legitimate objection if the Service were a private business. However, it is an arm of the federal government, and as a government agency, its operations should be as open as possible to Congress, government watchdog agencies, and the general public. To ensure compliance, the PRC, or any subsequent regulator, should have statutory power to enforce disclosure.

• The Postal Service has taken the position with a number of its non-core products that they are not subject to regulatory oversight. It would be helpful for Congress to direct, by statute, that all of the agency's products are subject to regulatory oversight.

• An even better reform would be to limit the Postal Service, by statute, to traditional hard-copy mail service and to certain governmental services, provided the services can be delivered most conveniently by the Postal Service and pay their full costs. Although the Postal Service's managers strongly disagree with this proposed reform, it was, in fact, recommended by the bipartisan Commission on the U.S. Postal Service, both for the Service's own financial well-being and for fairness to others in the economy.[13]

Conclusion.

By canceling several money-losing products in markets unrelated to its central mission, the Postal Service has taken a small step in the right direction. A bigger and better step would be to leave non-core markets entirely in order to focus on its core tasks, which are the hard copy delivery of non-urgent letters and periodicals. Given the desire of the Postal Service's leaders to continue dabbling in non-core markets, it would make good sense to include in any postal reform legislation firm limits on the government agency's activities.

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Endnotes

1. See U.S. Postal Service, "Update To Report on Nonpostal Initiatives," Submitted to Postal Rate Commission, Update of Response to Petition by Consumer Action, November 14, 2003, accessed on the Internet at http://www.prc.gov/docs/39/39466/NoticeUpdateReport.pdf.

2. For a description of Deliver America, see U.S. General Accounting Office, "Development and Inventory of New Products," GAO/GGD-99-15, November 1998. The GAO study examined new products the Postal Service was developing or marketing in fiscal years 1995-1998. The GAO reported that according to unaudited figures from the Postal Service, the new products had revenues of $148.8 million, expenses of $233.5 million, and a cumulative loss of $84.7 million from inception through 1997. Some of the new products were Deliver America, Remitco, retail merchandise sales in post office lobbies, prepaid telephone calling cards (Firstclass Phonecard), a program to construct and then lease out communication towers on Postal Service property (Unisite Antenna Program), a stored-value card (LibertyCash), two international financial transfer services (Dinero Seguro, Sure Money), various items grouped under Electronic Commerce Services, a service to let consumers establish automated payment agreements with businesses whereby consumers would have to send in postcards each billing cycle to authorize payment (Customer Initiated

Payment System), a mail tracking system (Delivery Confirmation), a service to prepare packages for shipping (Provisional Packaging Service), overnight delivery of local-delivery packages within selected cities (Fastnet), an expedited international mail service (Global Priority Mail), an expedited international package-delivery service for big mailers (Global Package Link), and a service to send information between countries by e-mail and then convert the e-mails to hard copy for final delivery (Global e-Post). It is evident from this partial listing that many of the Postal Service's new products in recent years have absolutely nothing to do with traditional mail service and even more are outside of its core market.

3. David Fineman, Statement of David Fineman, Chairman, United States Postal Service Board of Governors, before the Special Panel on Postal Service Reform and Oversight, House Committee on Government Reform, January 28, 2004.

4. 18 U.S.C., Sec. 1693-1697.

5. 18 U.S.C., Sec. 1725.

6. As a practical matter, some would include, as add-ons to the core market, products that are not covered by the dual monopolies but that fit conveniently alongside non-urgent letters and periodicals in mailbags and mailboxes and that are delivered at the same time. The idea is that these products can piggyback on mail deliveries that would be made in any case without requiring significant changes in normal routines. Such products might include first-class packages (those under 13 oz., and likely to fit in mailbags and mailboxes) and standard mail packages (16 oz. and less). When products require extra delivery trips by mail carriers or are not consistent with the highly specialized equipment and procedures the Postal Service uses in delivering its core products, costs mount quickly. Fred Smith, the founder and head of FedEx, is among those who have made this point. (See Frederick W. Smith, FedEx Corporation, Oral Testimony, before the Special Panel on Postal Reform and Oversight, House Committee on Government Reform, February 11, 2004.)

7. U.S. Postal Service, "Report on Nonpostal Initiatives," Submitted to Postal Rate Commission, Response to Petition by Consumer Action, March 10, 2003, pp. 1-2, accessed on the Internet at http://www.prc.gov/docs/37/37405/Notice_Report.3.10.03.pdf.

8. *Ibid*., p. 10.

9. John Nolan, "Postal Service Competition with the Private Sector (Deputy Postmaster General John Nolan)," provided in response to a request from Commissioner Joseph Wright, President's Commission on the United States Postal Service, April 2, 2003, accessed on the Internet at http://www.treas.gov/offices/domestic-finance/usps/docs/response_to_wright.doc. For a detailed analysis of Mr. Nolan's assertions, see Michael Schuyler, "Empire Building At The Postal Service," *IRET Policy Bulletin*, No. 87, May 19, 2003, available on the Internet at ftp://ftp.iret.org/pub/BLTN-87.PDF.

10. John E. Potter, Testimony of John E. Potter, Postmaster General/CEO, United States Postal Service, before the Special Panel on Postal Service Reform and Oversight, House Committee on Government Reform, January 28, 2004.

11. The Postal Service's hidden government subsidies are sometimes defended as a means of balancing the agency's special burdens, such as the universal service obligation, uniform rates, veterans' preference hiring, political barriers to closing and consolidating excess facilities, etc.. However, the notion that the Postal Service deserves special advantages in competitive markets because it has burdens assumes that two wrongs (both of which reduce economic efficiency) make a right. If such tradeoffs are allowed, they should be restricted to the agency's core products. As much as possible, artificial burdens should not be placed on the Postal Service's competitive products, nor should those products receive artificial advantages. Instead, the goal should be a level playing field where the Postal Service operates outside its monopoly.

12. U.S. Postal Service, "Report on Nonpostal Initiatives," p. 3.

13. See President's Commission on the United States Postal Service, *Embracing The Future; Making The Tough Choices To Preserve Universal Mail Service*, July 31, 2003, accessed on the Internet at http://www.treas.gov/offices/domestic-finance/usps/pdf/report.pdf.